

# STATE TREASURER'S 2002 POLICY GOALS AND INITIATIVES

## ***POLICY GOALS***

California State Treasurer Phil Angelides was sworn into office on January 4, 1999 and began his second term on January 6, 2003. His key goals are to protect taxpayer funds, to cost-effectively finance schools and other infrastructure that California needs to succeed in the 21<sup>st</sup> Century, and to invest more in California communities.

What follows is a brief summary of the major 2002 policy initiatives undertaken by the Treasurer in pursuit of these goals. The *State Treasurer's 1999, 2000, and 2001 Policy Goals and Initiatives*, as well as this document, can be found online at [www.treasurer.ca.gov](http://www.treasurer.ca.gov).

## ***POLICY INITIATIVES***

### **The Power of the Purse: How Investors Can Restore Integrity to Our Financial Markets**

In response to the wave of corporate scandals that have rocked the financial marketplace and cost investors trillions of dollars, Treasurer Angelides has taken the lead in organizing stockholders in a national campaign for corporate reform. Working with New York State Attorney General Eliot Spitzer and colleagues from across the nation, the Treasurer has taken a series of steps designed to restore integrity to the corporate boardroom, renew investors' confidence in the financial markets, and foster sustained economic prosperity.

As part of this effort, the State Treasurer's Office issued a report in December 2002 which enumerated a set of principles to guide investors in seeking needed reforms. Called *The Power of the Purse: How Investors Can Restore Integrity to Our Financial Markets*, the report urged institutional investors, in particular, to use their clout to seek changes in corporate business practices, for the benefit of the nation's economy. Following the release of the report, the Treasurer met with policymakers and institutional investors from across the country, urging them to adopt the principles outlined in *The Power of the Purse* and to take actions to further those principles.

In line with *The Power of the Purse* initiative, the Treasurer also took the following actions aimed at corporate reform:

- **Investment Protection Principles.** Treasurer Angelides joined Attorney General Spitzer, North Carolina Treasurer Richard Moore and New York Comptroller Carl McCall in adopting a set of Investment Protection Principles which require investment banks and money managers to meet new standards of disclosure and eliminate their conflicts of interest or risk losing the right to do business with their states. At the Treasurer's urging, these principles were also adopted by the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS).
- **Corporate Expatriation.** In July 2002, the Treasurer announced a policy prohibiting State Treasurer's Office investments in, or business dealings with, U.S. corporations that relocate offshore – in name only – to avoid taxes and weaken legal protections for shareholders. At the Treasurer's urging, CalPERS and CalSTRS voted to support shareholder resolutions urging reincorporation of expatriate companies.

In December 2002, the Treasurer initiated a national effort by major institutional investors to urge Standard and Poor's to remove offshore companies, including six corporate expatriates, from the S & P 500 Index, which describes itself as the "premier index for U.S. stocks." Nine state finance officials and national labor officials joined the Treasurer in this effort.

- **Investor Summit.** The Treasurer co-convened an investor summit in August 2002, bringing together public financial leaders from 14 states – who combined manage more than \$1 trillion in assets – to develop an agenda for joint action. At the meeting, the group vowed to work collectively to expand the drive for corporate accountability.
- **Executive Compensation.** In October 2002, CalPERS approved the Treasurer's proposal to co-sponsor, with Amalgamated Bank, a shareholder resolution urging General Electric to link executive pay to performance.

*The Power of the Purse* report is available online at [www.treasurer.ca.gov](http://www.treasurer.ca.gov).

## **PROTECTING TAXPAYER DOLLARS**

### ▪ **\$1 Billion Saved in First Phase of Strategic Debt Management Plan**

In January 2002, the Treasurer announced a new Strategic Debt Management Plan to help balance the budget, provide savings for taxpayers, and reduce debt payments in both the short term and the long term. The first phase of the plan was completed in March 2002.

The plan includes refinancing existing bonds, taking advantage of historically low interest rates; the structuring of future bond sales with level annual debt service; and the sale of variable rate bonds which carry lower interest rates. It is expected to save taxpayers \$1 billion in debt service payments through the 2002-03 budget year and

\$2.1 billion when fully implemented in 2004. Structuring of future bond sales under the Treasurer's plan will bring long-term, present-value savings to the State as well.

In addition to reducing overall costs to taxpayers, the Strategic Debt Management Plan reduces the state budget deficit – protecting education, healthcare, and other vital programs – and frees up the State's borrowing capacity for critically needed infrastructure investments such as schools and transit.

▪ **Taxpayer Funds Invested with Solid Earnings**

In 2002, the Treasurer's Office earned a solid return of 2.67 percent for the Pooled Money Investment Account (PMIA), which the Office oversees. The PMIA, which had approximately \$56 billion in assets as of December 31, 2002, is comprised of the funds of State government and more than 3,000 local jurisdictions. PMIA returns in 2002 were bolstered by the Treasurer's decision to purchase, since January 1999, \$1.3 billion of California-only, Community Reinvestment Act (CRA) and teachers' home mortgages, which earned 6.43 percent during the year.

Within the PMIA is the Local Agency Investment Fund (LAIF), a voluntary program which allows participating cities, counties, school districts and other local agencies to invest funds through the Treasurer's Office. As of December 31, 2002, the LAIF had \$21.6 billion under management. The PMIA's positive earnings record led to voluntary increased investment by local entities of more than \$2.7 billion in 2002 – an expression of confidence in the Treasurer's money management.

▪ **Historic \$11.3 Billion Bond Sale Replenished State Coffers**

The State Treasurer's Office facilitated the repayment of the State's general fund for billions of dollars spent to purchase power during California's energy crisis of 2001. After the Governor and the Legislature authorized the use of State funds for energy purchases, the Treasurer was charged with replenishing the State's coffers, which had been drained by the crisis, through the largest municipal bond sale in history. The bond sale allowed State funds to be used for their original purpose – including schools, healthcare and public safety.

The timing and structure of the complex, \$11.3 billion sale, undertaken in three phases, allowed the State to take advantage of historic low interest rates to the benefit of ratepayers.

## **FINANCING CALIFORNIA SCHOOLS AND INFRASTRUCTURE**

▪ **Sponsored Legislation to Create High-Speed Rail System for the 21<sup>st</sup> Century**

Treasurer Angelides sponsored SB 1856, a successful bond measure authored by Senator Jim Costa, to fund the first phase of a high-speed rail system connecting Northern and Southern California. The bill was signed by the Governor in September 2002 and the \$9.95 billion measure will go before the voters on the November 2004 ballot.

The Treasurer has taken a leading role in advocating the cost-effective financing of infrastructure such as high-speed rail to bolster the state's economic vitality. When completed, the high-speed rail system will be the most significant improvement to California's infrastructure in decades, and will provide a critical foundation for California's continued economic progress, particularly in Central Valley communities which have too often struggled for economic opportunity.

- **Called for \$25 Billion School Bond, Including New Funding for Charter Schools**

The Treasurer was the first statewide elected official to call for the Legislature to approve a \$25 billion bond authorization to relieve overcrowding and to repair older schools. The initial \$13.05 billion of a \$25.35 billion bond package was approved by voters in November 2002.

The bond measures include the first-ever designation of \$400 million for a program to construct public charter schools. The new Charter Schools Facility Program will be administered by State Allocation Board and the California School Financing Authority, chaired by the State Treasurer.

The State Treasurer's Office also continued financing a record amount of school construction and repair under voter-approved Proposition 1A of 1998. More than 2200 schools have benefited from over \$6 billion in Prop 1A financing since 1999.

*More information on the Charter Schools Facility Program is available online at [www.treasurer.ca.gov/csfa](http://www.treasurer.ca.gov/csfa).*

- **ScholarShare Savings Doubled in 2002—Account Earnings Made Tax-Free**

During 2002, assets invested by California families in The Golden State ScholarShare College Savings Trust, California's first tax-advantaged college savings plan, nearly doubled, rising from \$273 million to more than \$525 million as of December 31, 2002. ScholarShare enrollment grew by 73 percent in 2002, with 41,428 accounts added, bringing the total number of accounts to 98,056, as of December 31, 2002.

In 2002, the Treasurer's Office sponsored successful legislation to bring California's tax code in line with federal law, making earnings on accounts tax-free. The change means that all of a family's ScholarShare savings can be used for college expenses – stretching dollars further at a time when tuition is soaring.

*More information on California's Golden State ScholarShare College Savings Trust is available online at [www.scholarshare.com](http://www.scholarshare.com).*

- **Extra Credit Program Helped Hundreds of Teachers Purchase Homes**

The Treasurer's Extra Credit Teacher Home Purchase Program is designed to attract and retain qualified teachers and principals to serve in low-performing schools. The program provides low-interest home loans or tax credits, coupled with down-payment assistance, for credentialed teachers and principals who make a three-year commitment to help improve a low-performing school. In 2002, the program helped

275 families purchase a home, with 102 more loans pending at year-end, bringing the total anticipated number of families served by the program to more than 500.

The Extra Credit Program is administered by the California Debt Limit Allocation Committee, chaired by the Treasurer. *More information on the Extra Credit Program is available online at [www.treasurer.ca.gov/cdlac](http://www.treasurer.ca.gov/cdlac).*

## **INVESTING IN CALIFORNIA COMMUNITIES**

### ■ **Sustainable Communities Grant Program Made \$4 Million in Awards to 14 Cities**

The California Pollution Control Financing Authority (CPCFA), chaired by Treasurer Angelides, launched the Sustainable Communities Grant and Loan Program in 2002 to assist cities and counties in developing and implementing sustainable development policies, programs, and projects. CPCFA selected 14 cities to receive funding through this program, awarding over \$4 million in grants for smart growth projects.

Grants were targeted toward projects with the best potential to reduce pollution and environmental hazards, assist with the revitalization of economically struggling communities, promote infill development and curb sprawl. Projects funded include regional planning initiatives, incentives for infill housing development, and transit projects.

*More information on the Sustainable Communities Grant and Loan Program is available online at [www.treasurer.ca.gov/cpcf](http://www.treasurer.ca.gov/cpcf).*

### ■ **CalReUSE Environmental Clean-up Program Expanded**

Under the leadership of Treasurer Angelides, the California Pollution Control Financing Authority has continued to expand the California Recycle Underutilized Sites (CalReUSE) program. CalReUSE provides funding to help communities remove barriers that have prevented brownfields from being redeveloped – such as the cost of assessing levels of contamination and projecting cleanup expenses.

In 2002, CalReUSE began working with three local government partners – the cities of Oakland and Emeryville, and the City of San Diego Centre City Development Corporation, allocating \$3.3 million dollars to help these communities with brownfield cleanup. The program also added two statewide partners – the California Environmental Redevelopment Fund, LLC, and the California Center for Land Recycling. The initial allocation for these statewide partners is \$1 million.

*More information on the CalReUSE program is available online at [www.treasurer.ca.gov/cpcf](http://www.treasurer.ca.gov/cpcf).*

### ■ **Led Successful Effort for \$2.1 Billion Housing Bond**

The Treasurer supported legislation, authored by Senator John Burton, placing a \$2.1 billion measure on the November 2002 ballot to provide affordable housing for California families as well as shelter for battered women and homeless Californians. The bond included, at the urging of Treasurer Angelides, \$25 million for

downpayment assistance under the Extra Credit Teacher Home Purchase Program. The Treasurer also co-chaired the successful campaign to garner voter approval of the measure.

■ **New Healthcare Initiative Launched**

Recognizing the tremendous need for healthcare in underserved communities, and the difficulties community clinics face in accessing needed capital, the Treasurer has put an emphasis on expanding financing to community health facilities. As Chair of the California Health Facilities Financing Authority (CHFFA), Treasurer Angelides has launched new programs to provide low-cost financing to community health clinics serving families, the disabled, and the elderly. In 2002 alone, these programs helped over 150 community health clinics obtain much-needed capital.

- The HealthCAP program, a partnership between CHFFA and NCB Development Corporation, seeks to increase access to capital for health facilities, which have had difficulty obtaining adequate financing for their needs. Launched in 2002, HealthCAP closed six loans totaling \$3.8 million by year's-end, with another three loans, totaling \$2.5 million, in process. Under the program, each dollar of State funding leverages \$10 in private sector lending.
- The HELP II program provides low-cost loans to assist small and rural health facilities with their capital needs. In 2002, CHFFA made 30 HELP II loans totaling \$9.6 million to community health facilities.
- CHFFA completed allocations for community clinic grants under the Cedillo-Alarcón Community Clinic Investment Act of 2000, awarding the remaining \$8 million from this \$50 million program. In 2001, CHFFA allocated the initial \$42 million, helping community clinics to leverage an additional \$56 million in capital. The additional grants in 2002 allowed community clinics to leverage another \$25.4 million in capital. A total of 341 grants were made to 301 community clinics under this program.

*More information on the Treasurer's healthcare facility financing programs is available at [www.treasurer.ca.gov/chffa](http://www.treasurer.ca.gov/chffa).*

■ **Continued Progress on Double Bottom Line Initiatives**

In 2002, sustained progress was made in implementing the Treasurer's *Double Bottom Line: Investing in California's Emerging Markets* initiative. By the end of 2002, this initiative had directed over \$8 billion in investment capital to spur economic progress in California's inner-city and underserved communities. This initiative is part of an overall strategy to reinvigorate neighborhoods within the urban fabric. Capital investment has been made available for home mortgages, infill development, and business expansion – all with the “double bottom line” goals of solid returns for the State's pension and investment funds and broadened economic opportunity in California communities.

Investment highlights include:

- The Pooled Money Investment Account (PMIA), managed by the State Treasurer, has increased deposits in California community lending institutions, including banks and credit unions, by \$3.3 billion since January 1999. As of December 31, 2002, the PMIA had \$5.3 billion on deposit with 118 community lenders.
- The PMIA has invested \$1.32 billion in Community Reinvestment Act home mortgages – loans made in low and moderate income California neighborhoods or to low and moderate income Californians – since January 1999.
- The California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) have upped their investment allocations to urban, inner-city real estate ventures in California communities to over \$1.7 billion, including \$300 million for affordable housing.
- CalPERS and CalSTRS have now allocated over \$800 million for private equity investment to expand business opportunities in the underserved rural and urban communities of California.

*More information on the Treasurer's Double Bottom Line initiatives is available online at <http://www.treasurer.ca.gov/publications/doublebottomline/DBL.htm>.*

■ **Established New Commercial Revitalization Program to Leverage Private Investment in California Communities**

The Treasurer sponsored urgency legislation, authored by Senator Dede Alpert, to authorize the allocation of nearly \$500 million in federal tax deductions over the next eight years for commercial revitalization projects in California.

The tax incentives were authorized by Congress under the Community Renewal Tax Relief Act of 2000 to encourage redevelopment of abandoned and underutilized buildings in five federally-designated “renewal communities” – defined as areas of poverty, unemployment and economic distress – in Los Angeles, San Diego, San Francisco, and the Fresno County communities of Parlier and Orange Cove. The tax credits will help to leverage private investment in struggling neighborhoods – creating jobs and long-term economic growth.

The urgency legislation authorized the California Tax Credit Allocation Committee (CTCAC) to award \$60 million in federal tax deductions annually through 2010. Without the legislation, California risked losing its share of the federal deductions for 2002. CTCAC made the first awards under the federal and state legislation in December, allocating tax deductions to commercial redevelopment projects undertaken in San Diego and Los Angeles.

*More information on the Commercial Revitalization Deduction Program is available online at [www.treasurer.ca.gov/ctcac](http://www.treasurer.ca.gov/ctcac).*